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MULTILATERAL INVESTMENT FUND

MEXICO

**CONVERGENCE WITH THE INTERNATIONAL ACCOUNTING
STANDARDS ON FINANCIAL REPORTING**

(TC-02-01-10-0)

DONORS MEMORANDUM

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Annex I Logical framework

ABBREVIATIONS

CCE	Consejo Coordinador Empresarial [Business Coordinating Council]
CESI	Committee on Environment and Social Impact
CID	Centro de Investigación y Desarrollo [Research and Development Center]
CINIF	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera [Mexican Council for Research and Development of Financial Reporting Standards]
CNBV	Comisión Nacional Bancaria y de Valores [National Banking and Securities Commission]
CNSF	Comisión Nacional de Seguros y Fianzas [National Insurance and Surety Commission]
COMPIC	Comité Mexicano para la Práctica Internacional de la Contaduría Pública [Mexican Committee for the International Practice of Public Accounting]
EUC	Standard Certification Exam
FASB	Financial Accounting Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IMCP	Instituto Mexicano de Contadores Públicos [Mexican Institute of Public Accountants]
IQAB	International Qualification Appraisal Board
MIF	Multilateral Investment Fund
MPPMR	MIF Project Performance Monitoring Report
NAFTA	North American Free Trade Agreement
PED	Distance Education Program
ROSC	Reports on the Observance of Standards and Codes
SAC	Standards Advisory Council
US GAAP	US Generally Accepted Accounting Principles

CONVERGENCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS ON FINANCIAL REPORTING

(TC-02-01-10-0)

EXECUTIVE SUMMARY

Executing agency:	<i>Instituto Mexicano de Contadores Públicos</i> [Mexican Institute of Public Accountants] (IMCP)	
Beneficiaries:	All types of commercial enterprises, institutional and individual investors, regulatory entities, and, in general, all users of financial reporting; the Mexican Council for Research and Development of Financial Reporting Standards (CINIF), the Mexican Institute of Public Accountants (IMCP), and the Business Coordinating Council (CCE).	
Financing:	MIF (Facility I):	US\$1,700,000
	Local counterpart:	US\$1,875,000
	Total:	US\$3,575,000
Objectives and Description:	<p>The general objective is to improve the quality of financial reporting on business activities, to make it objective, reliable, comparable, and transparent.</p> <p>The specific purpose is to establish independent, effective bodies for generating, disseminating, and supporting adequate implementation of accounting standards that are convergent with the International Accounting Standards (IAS).</p> <p>The program components for achieving the aforementioned objectives are as follows:</p> <p>(i) Component I: Development of standards for convergence with the International Accounting Standards; this will partially support the activities of the new standards setting agency related to the alignment, issuance, and updating of convergent standards.</p> <p>(ii) Component II: Updating of accounting training and certification; the purpose here is to support implementation of IAS at all levels of the profession through training and by improving the accounting certification process, which includes other accounting disciplines, such as audits, taxation, law, finance, and ethics.</p>	

(iii) Component III: Dissemination of corporate best practices; the purpose of this component is to help update the Code of Corporate Best Practices, issued in Mexico in 1999, and disseminate it to all economic entities in the country.

Execution timetable:

The program execution period will be 36 months and the disbursement period, 42 months.

Special contractual clauses:

As a condition precedent to the first disbursement, the executing agency will present proof, to the Bank's satisfaction, that a project coordinator has been selected. The following will also be required: (a) signature of a funds transfer agreement between the IMCP and CINIF stipulating CINIF's responsibilities for execution of Component 1; and (b) a cooperation agreement between the CCE and the IMCP for execution of Component 3.

Environmental and social review:

The Committee on Environment and Social Impact (CESI) reviewed and approved this program on 7 December 2002, without any comments.

Exceptions to Bank policy:

None.

I. PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared Mexico eligible for all forms of financing from the Multilateral Investment Fund (MIF) on 21 January 1994.
- 1.2 The program qualifies for MIF financing in the context of the Technical Cooperation Facility (Facility I). The MIF is actively supporting projects aimed at promoting the implementation and/or alignment of accounting and audit standards. This operation is consistent with the objectives of the cluster action plan to support competitiveness through international accounting and auditing standards (MIF/GN-80), presented to the Donors Committee in May 2002. In that cluster, the MIF will finance programs that support efficient private sector financial markets, for which reliable information generated according to international accounting and audit standards will be needed.

II. BACKGROUND

- 2.1 The purpose of the Mexican Institute of Public Accountants (IMCP), an organization that brings together most of the accounting professionals in the country, is to promote research, preparation, and dissemination of standards for objective, reliable accounting at the national level. Historically, the IMCP has done this through its Accounting Principles Commission. This has been the function of the IMCP alone, without the involvement of other organizations or users of accounting standards, making it both judge and interested party. Currently, the standards issued by the IMCP are prepared in accordance with Mexican standards, approximately 70% of which are already in line with international standards. In cases in which the Mexican standard is not yet aligned or no standard exists, “Bulletin A-8” of the IMCP stipulates that the International Accounting Standards (IAS)¹ shall be applied supplementarily.
- 2.2 The Trade Code constitutes the legal framework for accounting in Mexico. Article 33 of that Code stipulates that all merchants are required to maintain an accounting system. Furthermore, the Tax Code establishes that businesses must annually present their financial statements audited by an independent public accountant, but does not specify which accounting principles are to be applied. In view of the foregoing, for over 40 years public accountants have been preparing

¹ The International Accounting Standards are passed by the International Accounting Standards Board (IASB), an independent, privately-funded accounting standards setter based in London, United Kingdom. The IASB is committed to developing, in the public interest, a single set of high quality, comprehensible, and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the IASB cooperates with national accounting standards setters to achieve convergence in accounting standards around the world. The IMCP is a member of the Standards Advisory Council.

and auditing financial statements in accordance with the generally accepted accounting principles issued by the IMCP.

- 2.3 In practice, accounting in commercial and industrial enterprises is self-regulated. Those involved in setting the accounting standards governing enterprises that participate in capital and money markets include: the accounting profession, through the IMCP, and capital market oversight entities (the National Banking and Securities Commission (CNBV), the National Insurance and Surety Commission (CNSF), and the Office of the Comptroller and Administrative Development). Those oversight entities stipulate that the enterprises or agencies under their supervision must have their financial statements audited annually by an independent public accountant, in accordance with generally accepted audit standards and principles set by the IMCP.
- 2.4 As part of the process to clearly show the situation of Mexican banks in the wake of the 1995 crisis, the Bank promoted, through a financial sector loan, the implementation of certain specific U.S. Generally Accepted Accounting Principles (US GAAP) in full-service banks. Since 1995, the CNBV has been tightening accounting standards for financial institutions with the result that accounting principles now in place are very similar to US GAAP.
- 2.5 The trend currently being observed in the region and in the rest of the world shows a preference towards adopting IAS.² Those standards are based on “principles” that in and of themselves do not provide indications or “concrete rules” on their application or the preparation of financial statements. Advocates of implementing IAS stress the fact that, because they are based on principles, users can adopt them and easily adapt them to the accounting systems in place. The countries of the European Union have resolved to adopt IAS by 2005.
- 2.6 Despite the progress made in aligning Mexican standards with IAS, some inconsistencies between the two remain. This can create differences for many enterprises in different areas, depending on users’ needs for the financial statements (for tax, lending, or oversight purposes), which hinders the comparability of figures from enterprises within a sector and, as a result, impairs decision making by third parties outside of those enterprises. Standardized accounting standards are therefore needed to produce comparable, transparent information in the financial statements of all economic entities.
- 2.7 In order for Mexico to successfully adopt and apply the International Accounting Standards, it must develop a sufficiently strong accounting infrastructure. Such an infrastructure should include: (i) a critical mass of qualified financial statement

² On 18 September 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) signed an agreement on convergence of US GAAP with IAS within two years time.

preparers and auditors; and (ii) an improved regulatory environment. The regulatory environment includes establishing mechanisms that guarantee autonomy from interest groups, so that the final result is the implementation of standards consistent with those enacted by the IASB.

- 2.8 As part of the strategy to achieve convergence, on 25 April 2001 the IMCP and other institutions launched an initiative to form the Mexican Council for Research and Development of Financial Reporting Standards (CINIF), which will be responsible for issuing financial reporting accounting standards that are in line with the International Accounting Standards (IAS). Creation of CINIF reflects the decision to adopt a model similar to the one sponsored by the IASB and FASB for setting of accounting standards. CINIF was created by mutual agreement of the Mexican Institute of Finance Executives, the Mexican Bankers' Association, the Association of Securities Brokers, the National Association of International Financial Institutions, the National Association of Accounting and Administration Colleges and Schools, the stock exchange, and the Business Coordinating Council, as well as the IMCP. That decision was also backed by the Secretariat of Finance and Public Credit, the National Banking and Securities Commission (CNBV), the National Insurance and Surety Commission (CNSF), and the Office of the Comptroller and Administrative Development. On 10 May 2002, CINIF completed the legal formalities for its establishment. The proposal from the participating agencies involves transferring the IMCP's authority to develop and publish financial reporting standards to an independent council, which it will participate on but not control.
- 2.9 CINIF members have resolved to continue with the strategy of making the accounting standards that govern Mexico's economic activities in the future fully consistent with IAS. This will make financial reporting comparable internationally. The creation of CINIF will enhance transparency by delegating to an independent entity responsible for the research, preparation, and setting of financial reporting standards in line with international standards. CINIF has two essential operating characteristics: representation of the multiple sectors involved and independence to develop and publish standards. CINIF will set standards through a consensus process that will involve financial reporting standard preparers, issuers, users, supervisors, and educators. All the founding agencies of CINIF have committed to working towards aligning Mexican standards with IAS.
- 2.10 Another important step for successful implementation of the International Accounting Standards is the drawing up of guides and guidelines that take into account the Mexican economic and financial situation, with a view to facilitating the alignment process. CINIF will be given the resources to be able to develop these guides. Another important element will be achieving implementation of IAS at all levels of the profession and in all states in the country, which will require professionals to be trained in the International Accounting Standards and the new interpretations. Although the IMCP offers courses and a diploma to its members

and other accountants, those courses will also have to be updated to reflect the International Accounting Standards.

- 2.11 Finally, in the business sector, use of corporate best practices must be promoted to enhance the transparency and reliability of financial statements. This will support the efforts to disseminate IAS at levels of business that often do not keep abreast of new accounting standards and practices.
- 2.12 Since 2001, the IMCP has been involved in the World Bank's Reports on the Observance of Standards and Codes (ROSC) process. The ROSC try to identify differences between local standards and IAS and to ascertain the level of development of accounting processes and gaps in fulfillment of the standards in the countries analyzed. The components of this project are consistent with ROSC recommendations and IMCP criteria.
- 2.13 Due to key interest in this and all projects in the cluster, the Bank and the MIF will play a dynamic role in its startup, by promoting the timely exchange of information among the executing agencies and examining the midterm and final evaluations.

III. PROJECT OBJECTIVES AND BASIC COMPONENTS

A. Objectives

- 3.1 The general objective is to improve the quality of financial reporting on business activities, to make it objective, reliable, comparable, and transparent. The purpose is to establish independent, effective bodies for generating, disseminating, and supporting adequate implementation of accounting standards that are convergent with the International Accounting Standards (IAS).

B. Basic components

- 3.2 The three main program components are: (i) development of standards for convergence with the International Accounting Standards; (ii) updating accounting training and certification; and (iii) dissemination of corporate best practices.

1. Component I — Development of standards for convergence with the International Accounting Standards (IAS) (MIF US\$850,000; Local US\$904,400)

- 3.3 The purpose is to support the establishment of an independent, plural body responsible for setting local accounting standards that are convergent and aligned with those enacted by the IASB, to enhance the transparency and comparability of financial reporting by enterprises. The objective of this alignment is to help users read, understand, compare, and use financial reporting in their decision making. The goal of the work of CINIF, through its Research and Development Center

(CID), is to achieve greater comparability and alignment of financial reporting with international standards and to have standards of the highest possible quality. The funds will be used to hire consultants with international experience, who will prepare 16 projects to update, align, and set new accounting standards. Standards will be developed on: conversion of foreign currency, transfer of assets, hedging and derivatives, income recognition, combining companies, options, etc. At the outset of the project, a substantial effort will be made to set a large number of standards. After those standards are issued, the workload will ease and, therefore, the consultants will only be temporary. The preparation and issuance of each standard is time intensive, because it is a very complex process involving high-level work. As a result, the MIF will support the initial extensive work in the process, which will last two years.³

- 3.4 The adoption of IAS and their adaptation to the Mexican context requires a lengthy process of research, dissemination, consultation, and consensus building on the standards prior to their issuance. To this end, the following stages are required:
- a. Compare local and international accounting standards, to determine areas where they differ significantly;
 - b. Identify, where possible, the specific reasons for the differences, such as the legal and economic environments, capital market structures, and cultures;
 - c. Work with institutions in the business, financial, banking, government, and academic sectors and in the accounting profession to eliminate the differences and develop models tailored to current circumstances;
 - d. Promote consultation on the proposed standards among the accounting profession, official regulatory authorities, business organizations, universities, and other institutions;
 - e. Develop interpretation notes and guidelines to support appropriate implementation of standards newly aligned with IAS; and
 - f. Promote programs for disseminating research results through publications, courses, seminars, and workshops that help to standardize professional standards.

2. Component II — Updating accounting training and certification (MIF US\$550,000; Local US\$550,000)

- 3.5 The purpose of this component is to support implementation of IAS at all levels of the profession through training and by improving the accounting certification

³ Annex V shows the research projects to be financed through this project. Annex VI shows the degree of integration between the IAS and Mexican accounting standards.

process. For 79 years, the accounting profession in Mexico has been self-regulated by the IMCP, through its code of professional ethics and its standard on continuing professional education. At present, accounting education is concentrated in Mexico City and a few other major cities in the country. The Mexican Institute of Public Accountants (IMCP) has developed a course to help accountants successfully sit for the Standard Certification Exam (EUC), which is required to obtain the Professional Accounting Certification. However, the course is only given in the classroom, and its curriculum does not include training on the new Mexican standards convergent with IAS. In some cases, the cost of the course (US\$2,000) is beyond the means of many accountants. As a result, the project proposes using the latest technology to offer a distance course, through the different accounting schools in each state belonging to the IMCP. This is an attempt to lower the cost of the course and to achieve a broader, more geographically diverse universe of professional accountants. Starting in 1998, and as a result of agreements reached in the context of the North American Free Trade Agreement (NAFTA), a Public Accountant Certification process was launched, with the approval of the Mexican Committee for the International Practice of Public Accounting (COMPIC). At present, the IMCP is the only institution recognized by COMPIC at the national level and by the International Qualifications Appraisal Board (IQAB) at the international level. On 27 September 2002, the IMCP signed a Professional Mutual Recognition Agreement with the institutes of accountants in the United States and Canada. This agreement on reciprocity of professional services will enable certified accountants who are members of the IMCP to be able to practice the profession in all NAFTA countries. Because of this, increased demand for certification among Mexican accountants is anticipated; therefore, the support provided through this component will significantly help to reach the stated target for certified professionals.

3.6 The main activities to be financed in this component are as follows:

- a. *Distance education and professional certification program.* The project will support the hiring of consulting services to support the IMCP in the certification program and quality control process for the profession. Funding will be provided to devise a Distance Diploma that includes instruction on IAS to pass the Standard Certification Exam (EUC) required to obtain Professional Accounting Certification. There would be six modules in the Diploma for the Distance Education Program (PED). In the first phase, the PED will be geared towards supporting the certification of public accountants. The second phase will be aimed at disseminating the new financial reporting standards issued by CINIF. The IMCP, through its federations in the United Mexican States, has roughly 20,000 members, of whom only 6,500 are certified. By supporting this activity, this project expects to increase by 50% the number of certified professionals by program's end. Project funds will also be used to contract the network to develop the distance education program (comprehensive teleconferencing service, production and rental of

auditoriums, and training over the Internet). This phase will lay out the educational model, the use of technical media to develop it, the definition of the advising and tutoring required, evaluation of the materials, and evaluation of the terminal efficiency rate.

- b. *Training program and course curricula.* Content will be designed for each module in the program in coordination with various federated schools that already have a diploma for the EUC; for this, the top professionals currently giving classroom courses will be hired, to take advantage of their experience in each respective topic. The project will cover their travel expenses, preparation of course materials, and advertising and dissemination of the program (publishing and printing bulletins on the new standards and the guide for the EUC diploma). Once this has been done, to provide adequate training for members of the accounting profession in the different schools in the country, funds will be allocated to pre-training approximately 150 professors in the adapted curriculum through distance education systems; those professors will be responsible for the courses for accountants at the national level.

3. Component III — Dissemination of corporate best practices (MIF US\$90,000; Local US\$90,000)

- 3.7 The purpose of this component is to support the updating of the Code of Corporate Best Practices approved in 1999 and its dissemination to all economic entities in the country. Its importance lies in that it recognizes the significance of corporate governance, particularly the role of directors and administrators, the demands on audit committees, and implementation of best practices. The activities to be financed in this component include: (a) preparation of regulations for applying the code ; (b) publicity and advertising; and (c) dissemination of the code through forums and conferences.
- 3.8 With the involvement of the highest-level private sector agencies in executing this component, through the Business Coordinating Council (CCE), this component seeks to increase dissemination and implementation of the code among Mexican enterprises. The CCE, through the communications infrastructure of the IMCP and its member chambers of industry and commerce, will hold virtual conferences on corporate governance in different cities in the country. The target audience will be small and medium-sized enterprises for whom this will be the only opportunity for acquiring refresher training or for learning about this topic. In order to also reach large enterprises, two conferences will be given by recognized international experts; prospective participants will be business partners and managers and corporate governance officials from the Secretariat of Finance and the CNBV. First, however, the respective code must be updated with support from a consultant who is an expert on the topic, hired by the Bank and directly supervised by the CCE.

IV. COST, FINANCING, AND SUSTAINABILITY

A. Cost

- 4.1 The program cost is estimated at US\$3,575,000. The MIF will contribute US\$1,700,000 (47%) in nonreimbursable financing from Facility I. The balance of US\$1,875,000 (53%) will be the responsibility of the IMCP as the local counterpart; of that amount, at least 50% will be in cash. The estimated project budget is as follows:

Budget items	MIF	Local contribution	Total
Component I: Research and development of standards for convergence	850,000	904,400	1,754,400
Component II: Accounting certification and training	550,000	550,000	1,100,000
Component III: Dissemination of corporate best practices	90,000	90,000	180,000
Program coordination	80,000	88,918	168,918
Administrative expenses		211,682	211,682
Monitoring and evaluation	70,000		70,000
Auditing		30,000	30,000
Technical advisor and exchange of information in the cluster	25,000		25,000
Contingencies	35,000		35,000
Total	1,700,000	1,875,000	3,575,000
	47%	53%	100%

B. Sustainability

- 4.2 The program strives, in the case of CINIF and the IMCP, to be financially self-sustainable. Its sustainability will basically come from three sources: (i) the publication and sale of the standards issued; (ii) contributions from CINIF members; and (iii) revenue from offering the accounting training and professional certification courses. Upon project completion, the CINIF is expected to have covered a significant portion of its funds through revenue from royalties for publication of the standards issued, coupled with contributions from its members. In addition, CINIF, with the support of its members, has launched a massive fund-raising effort, proceeds from which will be deposited in a capital fund. Dividends from that fund will be used to cover future operating expenses. In just a few months, this effort has raised US\$80,000. The participants in this process are private and public institutions, with substantial resources, that have committed to contributing and to moving in this direction. This financing model is similar to the one carried out by the IASC for conversion to a Board (i.e., the IASB). In the case of the IMCP, the offering of new updated training courses and the increased

number of accountants seeking professional certification will substantially boost revenue and enhance project sustainability.

V. EXECUTING UNIT AND EXECUTION MECHANISM

A. Executing unit and co-executing agencies

- 5.1 The executing agency will be the Mexican Institute of Public Accountants (IMCP), because it has legal and administrative capacity to carry out that function. The IMCP is one of the oldest (79 years), best organized, and most prestigious federations of professional schools, recognized by the public and private sectors both nationally and internationally. The major firms of public accountants belong to the IMCP through their Mexican partners. In addition to the IMCP's institutional strength, its involvement as an executing agency was deemed important, in order to maintain close contact with CINIF during the transition of procedures for setting accounting standards. Through its Accounting Principles Commission, the IMCP will advise CINIF, at the outset, on the methodology and processes used for adequate research, consultation, issuance, and dissemination of the standards to be set.
- 5.2 In order to maintain the independence and specialization of the outputs and activities of each component, to support execution, CINIF will be the co-executing agency responsible for Component 1. Due to the nature of Component 2, it will be the responsibility of the IMCP. Because of the importance attached to the relationship with the private sector, Component 3 will be the responsibility of the IMCP and will be supported by leading agencies, such as the Business Coordinating Council (CCE). The CCE, as the highest organization in Mexico representing the private sector, draws together different national chambers, such as the chambers of commerce, the transformation industry, bankers, etc. The CCE would rely on the IMCP's nationwide infrastructure of professional associations of accountants in order to disseminate the Code of Corporate Best Practices. The IMCP already has drafts of the respective agreements with CINIF and the CCE that clearly stipulate the purview and commitments of each institution for project execution. Those agreements will be signed simultaneously on the date the respective agreement is signed between the IMCP and the Bank.⁴

B. Execution mechanism

- 5.3 The program will finance a project coordinator, who will be responsible for administering and monitoring the program. The IMCP, as executing agency, will assign a project assistant and provide the necessary physical space and equipment

⁴ CINIF and the CCE have already presented letters of intent expressing their commitment to participate in the project.

for adequate operation of the executing unit. The project coordinator will work closely with officials from CINIF, the IMCP, and the CCE and with the technical experts assisting with program implementation.

C. Execution period

- 5.4 The project execution period will be 36 months and the disbursement period, 42 months. Upon fulfillment of the conditions for the first disbursement, a revolving fund of up to 10% of the grant will be established to procure goods and services in accordance with Bank procedures.

D. Project preparation

- 5.5 During project preparation, the IMCP completed a self-evaluation of Mexican accounting standards in accordance with the ROSC program, the outcome of which was taken into account in preparing the proposed project. The terms of reference for hiring the project coordinator have also been prepared.

E. Accounting and auditing

- 5.6 **Accounting.** The executing agency will maintain adequate accounting, financial, internal control, and filing systems making it possible to identify the sources and uses of program funds. The accounting system will be organized so as to provide the necessary documents for reviewing transactions and facilitate timely preparation of financial statements and reports. Project records will be kept in such a way that they: (i) identify the amounts of money received from different sources; (ii) produce project expense reports in accordance with a chart of accounts previously approved by the Bank that segregates MIF contributions and other sources of funding; and (iii) include the details needed to identify the goods procured, the services contracted, and the use of those goods and services. In addition, the executing unit will open specific, separate bank accounts for administering the MIF contribution and local counterpart funds. Finally, the executing unit will process disbursement requests and the corresponding justifications for expenses, in accordance with Bank disbursement procedures.
- 5.7 **Financial audits.** The IMCP will prepare and present to the Bank the final financial statements on the Bank's contribution and the local counterpart funds, within 90 days of the last project disbursement. Those financial statements will be audited by a firm of independent auditors acceptable to the Bank. Audit costs will be financed out of the local counterpart funds, in keeping with Bank procedures.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** The IMCP will present to the Country Office in Mexico (COF/CME) all project progress reports within 30 days of the end of each

six-month period and a final report within 30 days of the last disbursement. Those reports will adhere to a format previously agreed to with the COF/CME and will address all activities and project financing and outcomes measured in terms of the indicators and means of verification identified in the project logical framework. The COF/CME will use those reports to monitor progress with project implementation and to prepare a Project Completion Report within three months of the last disbursement. The project team will work closely with the COF/CME on technical issues related to project execution. The MIF's interest in this project is attributable to the fact that the project is part of a cluster. As such, the project will also benefit from the assistance of a technical advisor and a mechanism for sharing information with other executing agencies participating in the cluster, in order to exchange lessons learned and best practices. There is a US\$25,000 budgetary appropriation for this purpose, which will be managed by the MIF to facilitate overall coordination of the cluster.

- 6.2 **Evaluation.** The Bank will hire consultants to conduct the midterm and final project evaluations. The midterm evaluation will be prepared 18 months into the project or when 50% of the funds have been disbursed. If necessary, the COF/CME and the project team will conduct annual performance evaluations based on the midterm evaluation, to determine if the project should be continued, suspended, or canceled. A final evaluation will be performed within three months of project completion. For that review, an independent expert will take into account the project's impact on the application and implementation of IAS, as well as the extent to which the reform program contributed to the adoption of those international standards. The independent evaluation will be conducted in accordance with the ROSC program, and will determine how useful the interpretations, implementation guidance notes, and training were in applying the IAS. The executing agency will provide access to all information and documents needed for these evaluations. The midterm and final evaluations will be financed with MIF funds.
- 6.3 During program execution, the IMCP will supervise and evaluate the program indicators. Those indicators are presented in the Logical Framework (Annex I) and will be used by the Bank's Country Office and the IMCP to gauge the overall impact and evaluate the outcomes. The logical framework also corresponds to the MIF Project Performance Monitoring Report (MPPMR) and will allow for a rigorous evaluation of the program's impact on the beneficiaries and for the evaluation of the project cluster.

VII. PROJECT RATIONALE AND RISKS

A. Benefits and rationale

- 7.1 This project is considered consistent with MIF objectives to support processes related to developing regulatory frameworks, information transparency, and

strengthening financial and capital markets. It is adequately in line with the cluster on promoting competitiveness through international accounting and auditing standards. With the current globalization of financial reporting, this project is considered to be highly **replicable** in countries in the region, given the trend towards setting uniform financial reporting standards. The project is considered **innovative** because of the structure, objectives, and view that will be given to CINIF. In addition, few countries in the world have formed an independent agency to govern their financial reporting with the involvement and interest of both the private and public sectors. Since the project is in its design phase, the **additionality** of the MIF is reflected in the support for and strengthening of the initial research on and dissemination of standards in the early years, while generating and contributing the funds needed to achieve the anticipated **sustainability** of CINIF.

B. Beneficiaries

- 7.2 The direct beneficiaries of the technical-cooperation operation are CINIF, the IMCP, and accounting professionals; the operation will indirectly benefit industrial, commercial, and service enterprises (including small and medium-sized enterprises), investors, regulators, academia, and all users of financial reporting.

C. Risks

- 7.3 The main risk is related to CINIF's financial sustainability. To mitigate this risk, that agency launched a fund-raising campaign in June 2002, collecting roughly US\$80,000 to date. Fund-raising among CINIF partners will be ongoing until financial sustainability is achieved. This process involves public and private sector entities with substantial resources that have expressed their commitment to supporting this and moving in this direction, because it is in their interest. Another main source of funding for achieving sustainability will be from the issuance and publication of the financial reporting standards it develops; revenue from this is estimated to be sufficient in the medium term to adequately cover research costs.

VIII. SOCIAL AND ENVIRONMENTAL VIABILITY

- 8.1 The Committee on Environment and Social Impact (CESI) reviewed and approved this project on 7 December 2002, without any comments. Due to the nature of the program, there is no direct or indirect adverse social or environmental impact. Socially speaking, the project will seek to expand access to training services in the accounting profession for a universe of accountants in disadvantaged geographic areas and various minority groups.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As a condition precedent to the first disbursement, the IMCP will present proof, to the Bank's satisfaction, that a project coordinator has been selected. The respective terms of reference are attached in Annex IV. The following are also required: (a) signature of a funds transfer agreement between the IMCP and CINIF stipulating the terms of transfer and CINIF's responsibilities in respect of implementation of Component 1; and (b) a cooperation agreement between the CCE and the IMCP for execution of Component 3.

X. EXCEPTIONS TO BANK POLICIES AND PROCEDURES

- 10.1 No exceptions to Bank policy are anticipated.

LOGICAL FRAMEWORK

CONVERGENCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS ON FINANCIAL REPORTING (TC 0201100 ME)

Narrative summary of objectives	Objectively verifiable indicators	Means of verification	Assumptions
Goal To achieve objective, reliable, comparable, and transparent financial reporting on the activities of Mexican enterprises	1. Audited financial statements from the top 200 Mexican enterprises, prepared according to criteria consistent with IAS	1. Financial statements published quarterly by the stock exchange 2. Harmonized accounting standards issued by CINIF and the IMCP	IAS and US GAAP are harmonized within two years, starting in 2003. The CNBV accepts the standards issued by CINIF as applicable to companies traded on the stock exchange.
Purpose To establish independent, effective bodies to produce, disseminate and support adequate implementation of accounting standards convergent with the IAS	1. A Research Council for Financial Reporting Standards is operating sustainably within 36 months 2. There is a training process convergent with IAS that includes instructors trained in the topic; an updated diploma; and a distance education system is operating in 75% of schools belonging to the IMCP by the end of the program	CINIF statutes, legal records, and audited annual financial statements	Support for the project from CINIF members is maintained under the terms originally agreed to.
Components I. Development of standards for convergence with the International Accounting Standards <i>i) Responsibility for setting accounting standards is transferred from the IMCP to CINIF.</i>	For Component I 1. The CINIF Research Center is established and operational in 2003.	a. Semi-annual progress reports for the Bank from CINIF and the IMCP	Users of the information issued by CINIF recognize that body to be the appropriate standards setter.

Narrative summary of objectives	Objectively verifiable indicators	Means of verification	Assumptions
<p>ii) <i>The Research and Development Center for consultation and standards setting is created.</i></p> <p>iii) <i>Existing Mexican accounting standards and new standards issued are aligned with IAS and are being implemented.</i></p>	<p>2. CINIF sets 16 new accounting standards, consistent with IAS, within 36 months.</p>	<p>b. Contracts of the consultants hired by CINIF</p> <p>c. Standards issued and published by CINIF</p>	
<p>II. Updating of accounting training and certification</p> <p>i) <i>Distance education and professional certification program is applied.</i></p> <p>ii) <i>Training and course curricula, seminars, and workshops on the new accounting standards are implemented.</i></p>	<p>For Component II</p> <p>1. 3,250 additional accountants are certified, in addition to the present number of 6,500, within 36 months.</p> <p>2. Diploma prepared that is convergent with IAS within six months</p> <p>3. 150 professors trained on the adapted curricula</p>	<p>1. IMCP certification records</p> <p>2. Course materials</p> <p>3. Registration and training records</p>	<p>Mexican accountants are interested in being certified, to broaden their professional horizons.</p>
<p>III. Dissemination of corporate best practices</p> <p>i) <i>Code of Best Practices is updated.</i></p> <p>ii) <i>Advertising and publicity on the code are disseminated.</i></p>	<p>For Component III</p> <p>1. Code updated by the Business Coordinating Council and disseminated to enterprises, accounting firms, oversight entities, and research centers (universities, academia, institutes) within 12 months</p> <p>2. 1,000 copies of the code are issued and disseminated.</p>	<p>Code of Best Practices is published</p>	<p>Private enterprise is willing to make progress in terms of transparency and to improve governance.</p>

Narrative summary of objectives	Objectively verifiable indicators	Means of verification	Assumptions
<i>iii) Forums and conferences to disseminate the code are held to enhance corporate governance</i>	3. Six forums and seminars on the code are held. 4. 250 enterprises will implement the code. 5. 1,000 persons in the business, government, and academic sectors are trained on the code.		